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AGENCY OF RECORD MEDIA PURCHASING RESPONSIBILITIES
IN A MULTI-AGENCY OPERATION -- AN AGENCY PERSPECTIVE

by

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and

AGENCY OF RECORD: WHAT IT SHOULD AND SHOULD NOT BE
-- AN ADVERTISER PERSPECTIVE

by

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Mr. Winter suggests that clients should develop a better understanding of the agency of record assignment and the agency's cost to fulfill that assignment. He believes that a reward system that recognizes outstanding performance will materially increase the effectiveness of the client's advertising dollar. Mr. Bennett, whose talk begins on Page 6, concurs with Mr. Winter's views and states that the customary 15% of 15% arrangement has outlived its usefulness. He feels that compensation for agency of record assignment should reflect the responsibilities involved and not "traditional pricing."

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Agency Of Record Media Purchasing Responsibilities
In A Multi-Agency Operation -- An Agency Perspective

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I would like to place a very narrow definition on the term "Agency of Record" and, hope using this narrow definition, review with you all of the essential components.

For this discussion, then, let us say that agency of record responsibilities are limited to the purchase and control of spot television announcements and augmented only by a few words on agency of record print and network spots.

HISTORY OF TERMS

The terms "Agency of Record", "Master Agency" and "Captain Agency", etc., seem to go back to at least the '40s and probably further, but at that time, and even today, the agency of record on print was primarily an information control and disseminating section which kept all interested parties informed as to the volume or discount level where sliding scale newspapers were involved and for magazines that offered volume discounts. Generally, the agency of record either performed this service without additional compensation from other agencies (certainly no additional compensation from the client) or, at best, at a small allocation of cost to the other agencies involved.

In many instances, the service was performed by the client as agencies had a tendency to ignore the importance of the assignment, or because it was difficult for one agency to get cooperation from another agency.

A review of history is rather silent on "Agency of Record" for radio, which is probably due to the fact that each agency either bought or produced its own properties without meaningful or measurable intercourse between other client agencies.

Some time in the early or mid '50s, the "Agency of Record" for television blossomed in a far different way from what is understood today. At that time, the agency of

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record generally had meaningful show supervision, casting and content responsibilities not only for shows owned and sold by the network, but for shows that they had purchased for their clients from producers such as Goodson & Toddman.

Today there is still a little of this, but the television agency of record assignment has pretty much boiled down to the responsibility for buying local and network spots.

Before examining the state of the art today, I think it is important that I let you know where I stand on this subject.

1. With a few notable exceptions, clients are not clear as to the responsibilities assignable to the agency of record.
2. There is substantial variance among clients in their requirements of the agency of record.
3. Within and between each client, the "nature of the beast" will have much bearing on the assignment.
4. Notwithstanding all of the variables, there seems to be a universally accepted practice of reimbursing the agency of record, which may have little relationship to the work involved and, therefore, possibly be unfair to the participating agency, the client, and the agency of record.

It is my belief that this subject is so important to each client, and that the benefits to be gained are so great, that if the client has elected not to become involved, he should get off his thumbs and get involved.

TODAY -- COMPENSATION AND RESPONSIBILITIES OF AGENCY OF RECORD

Keeping in mind a limited definition of "Agency of Record", meaning TV spot buying and related responsibilities, it is interesting to note that the method of compensation for the great majority of agencies involved has changed little over the past 10 years. We have agencies reporting to our association that the generally accepted standard is 15% of 15% going to the agency of record, meaning that the agency of record receives 2.25% off the top. This is not an all inclusive practice: a few divide the assignment on the

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basis of respective product advertising budgets, some divide the responsibility by region, and a few have a slightly different percentage going by the agency of record, but the great majority of compensation arrangements is "15 of 15 off the top."

We should give some thought to the number of possible valid and important responsibilities that might be attached to each agency of record assignment. Offhand, I can come up with 10 areas that will have substantial bearing on the agency of record work load and performance, such as:

1. Who is responsible for doing the media planning and media recommendations?
2. What is the size of the buy?
3. What is the duration of the buy?
4. How many flights or promotions are involved?
5. How many products are involved?
6. Is there a rotation of products?
7. Who is responsible for clearance?
8. What class of spots is being bought - Section 3, Section 2, Section 1, or network?
9. What is the target audience?
10. Who does the evaluation of the buy - who pays for it?

HOW AND WHY 15 OF 15 REMAINS THE STANDARD

With all of these variables, why is the method of agency of record compensation so uniform? Without trying to answer this question at the moment, let's stop and review the importance of this subject from the client's standpoint.

Eliminating commercials within networks, and concentrating on local spots, let's consider a hypothetical relationship in cost per thousand homes. To ease the mathematical pain, let's use \$2.00 per thousand homes as an average cost per thousand homes.

If the agency of record has one million dollars of another agency's budget to purchase these spots, he will be able to purchase 500 million

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homes on a duplicated basis -- provided that he can bring his buying in at \$2.00 per thousand.

If the agency of record does an outstanding job and buys these homes at \$1.80 per thousand, then they will have purchased 555,555,555, or 11.1% more homes than the average good buy.

Should the agency not do a very good job and come in with a cost of \$2.20 per thousand homes, they then will have bought only 454,545,454 homes. This is 11.1% less than the average good buy and 22.2% less than the outstanding buy.

2.25% provides the agency of record \$22,500 -- a 10% swing in the buy efficiency is worth \$100,000; 20% is worth \$200,000.

This amounts to a lot of money, or a lot of advertising, or a lot of homes, and since the difference in sales is measurable, it behooves each client to find a way to get the job done better.

I have some observations as to why this 15 of 15 hangs on through the years. The observations aren't pleasant, but I can't resist sharing them with you:

1. The agency who has a profitable situation based on the 15 of 15 certainly doesn't want to discuss the subject.
2. The participating agency who is unhappy with his lot doesn't want to discuss the subject because he has two or three concerns:
 - a) He hopes (if 15 of 15 is profitable) to be tapped on the shoulder for the agency of record assignments, or
 - b) He doesn't want the client to remind him that he, too, could have this assignment if he were competent in this area, or
 - c) If 15 of 15 isn't profitable, why should he open the can of worms.

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3. For reasons that you can better explain to me, the client seems to be reluctant to get into the act. Many client's believe:
 - a) That since so many other clients reward their agency in the 15 of 15 manner, it must be right.
 - b) That they are not competent to make decisions in this area.
 - c) That this is something the agencies should work out themselves.
 - d) It's not costing them anything -- why get excited.

ENRICHING THE CLIENT/AGENCY OF RECORD RELATIONSHIP

The performance of the buying agency is an integral part of the total marketing function. You, the client, as the supplier of all things good, should be constantly trying to find ways to encourage your agency to do an even better job in this critical area.

Once you have said to yourself, "That's what the agency is getting paid for," I think you have lost this ballgame. You should be saying, "What is it that I could do to encourage my agency to do an outstanding job for me."

If I were the client, I would want to develop a better understanding of the agency of record assignment and the agency cost to fulfill that assignment. I would like to develop a method of determining a reasonable profit for a reasonably good job. I would certainly want to find a way that is fair and equitable to all concerned, to reward outstanding performance. The client who finds a proper answer to this subject will materially improve the effectiveness of his advertising dollar.

I have very little to say about network spots, other than to observe that the administrative work of implementation and execution is substantially less when you are buying network; and, that in all probability, 15 of 15 is excessive compensation to the agency of record, if the client is actually making the purchase. If the client is not making the purchase, and the agency of record is making the purchase, then you must consider the agency of record compensation factor in the light of buying performance.

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Agency Of Record: What It should And Should Not Be
-- An Advertiser Perspective

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I didn't realize until I started to review the literature available to me how little information there is concerning the "agency of record" function. Mr. Webster failed me, as did the A.N.A. publications and even Ovid Riso's Advertising Cost Control Handbook, when I tried to find a "good" definition of the term "agency of record." (Consequently, the definition seems to be whatever the user of the term wants it to be.)

The term "agency of record" has taken a different meaning since the Second World War. It used to mean that a product or line of company products had been assigned to an advertising agency and that agency was responsible for all facets of the product's or company's advertising. The agency of record fee was obviously the standard 15% on all activity and the agency was expected to perform all functions. Starting roughly 30 years ago, advertisers became more sophisticated, and probably as a result of the rush to diversification in those days, product lines were divorced from each other -- even products within the same product line -- and assigned to different agencies in order to get the widest possible creative effort and media expertise applied against the advertising problems of the different products. It became fairly common for major advertisers to have several major agencies working on their products and corporate advertising. With the advent of multiple agencies working for the same advertiser, the agency of record (agency of record fee) became an important method to compensate agencies for their efforts.

In my view, the term "agency of record" is slightly different from just agency of record fee. As advertisers became more sophisticated, and to some extent began to understand the services and functions of their agencies, it became fairly apparent that agencies had different strengths and weaknesses. Looking at agency of record in this way, it becomes obvious that the multi-agency advertiser should use agency of record to gain maximum advantage from his agencies' strengths and minimize damage from what may be certain

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weaknesses among his agencies, rather than a method of passing commission so that the multi-agencies are adequately compensated for their work for the advertiser.

Some major advertisers rotate agency of record assignments for Network TV in order to equitably distribute the commission generated by the Network TV. Other advertisers use a "negotiating" agency as well as an agency of record for major media buys. The advertisers who use these methods are the larger and more sophisticated advertisers who have people with the necessary expertise on the staff. Consequently, I would think the advertiser really is in control of the media implementation rather than the agency of record, negotiation, etc.

Although I am sure many of my agency friends would not agree, I believe the use of the agency of record as a method of compensation is outdated and should be divorced from the compensation transfer area. The use of 15 of 15 -- or other arrangement designed to adequately compensate the various agencies for their efforts -- appears to me to have outlived its usefulness and effectiveness and should be discarded. Advertisers have the option, and many exercise it, to audit their agencies just as they audit any major suppliers of components or materials. Whether advertising and the agencies' contribution to it is an "art" or a "science" is a long-standing, unresolvable debate. However, after translation into the great common denominator (dollars, pesos, francs, etc.), advertising can be handled like another product cost.

As individuals, we have abandoned "traditional pricing" (fair trade prices) for major purchases. We attempt to get maximum value for our money, recognizing, of course, that the seller must realize a fair margin. However, although major advertisers probably do pro-forma P&L's on their agencies in order to determine commission distribution, there seems to be a great reluctance to leave the 19th Century approach of the 15%. Historically, Senior Management has perhaps been more comfortable looking at advertising as a total expenditure rather than the various costs of advertising. Most advertisers have excessive cost accounting departments which examine every facet of manufacturing, distribution, and overhead costs in minute detail. But advertising is a magical, mystical expenditure which somehow moves products, creates corporate image, or accomplishes whatever it is supposed to do.

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WHAT SHOULD AGENCY OF RECORD BE?

Agency of record assignments should reflect responsibilities of the agencies for the advertiser. To me a "product agency of record" should have the responsibility of the brand creative, media planning, etc. However, the actual implementation of media may or may not be done by the product agency.

Henry Schachte, in a recent article in Advertising Age, talks about the problems of agency changes by advertisers. Sometimes the emotionalism can be both expensive and detrimental to the advertiser's best interests. For the major advertiser, the magnitude of the money being placed in various media requires careful control and monitoring. In the case of agency changes, the departing agency -- and understandably so -- will be tempted and probably will switch their best personnel to retained assignments. Consequently, the advertiser runs a significant risk of losing control during the transition period, especially in the area of media purchase and administration.

In summary, I think the agency of record should:

1. Reject responsibilities of the various agencies of the multiple agency advertiser.
2. Be assigned to maximize the strengths of the agencies of the advertiser.
3. Separate the product and media implementation agency of record if this would be advantageous.
4. Be aware of what compensation an agency needs to handle its assigned responsibilities, turn a fair profit, and furnish incentive for innovative work.

I think the agency of record function should not:

1. Be used and manipulated to transfer compensation between the agencies of a multiple agency advertiser.
2. Be capriciously changed by use of "negotiating" agency or other methods, but should truly represent the agency's assigned area of responsibility.

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3. Be relegated to the area of just administration, but rather be considered as another avenue available to the advertisers to improve his advertising.

I realize that advertisers handle the agency of record differently, but in all cases it should be recognized as an important ingredient of the advertising pie.

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